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PUBLIC SERVICE COMMISSION  
TRANSCRIPT OF PROCEEDINGS

Public Hearing

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Fairmont Community Center  
600 South Ash  
Independence, Missouri

In the Matter of the Missouri Natural Gas Commodity Price Task Force

WARREN WOOD, Chairman  
TIM MAUPIN, Consumer Representative  
MARY K. MATALONE, Consumer Representative  
JOYCE LUCAS, Consumer  
JOYCE WHITE, Consumer  
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CHAIRMAN WOOD: We will be calling people from the sign-up sheet that is on the front right-hand corner of the desk there on the table back here. If you wish to speak and haven't signed up, please go ahead and do so. In order for everybody to have a chance to speak, when you come to the microphone, please try to keep your comments focused on concerns, questions, of how gas costs are currently collected from consumers, ideas we are considering for the future, and any new ideas that you may have.

The resources of this group are not targeted specific billing problems, disconnect notices, budget billing problems and the like.

Please work with your utility, followed by the Public Service Commission Consumer Services Department if necessary, on those types of problems.

Also please try to keep your comments to less than five minutes so that everyone will have a chance to speak. If someone asks a question close to your own and answers it, please consider waiting until other people have had a chance to ask their questions before accepting any of your questions as need be.

On some frequent asked questions we would like you to answer for us: Do customers want more or less frequent PGA rate changes? Do customers want rate caps for summer recoveries? And especially do consumers generally prefer stable rates or the lowest possible rates? There are some differences in planning to achieve either one of those objectives. It is very difficult to achieve both.

Now if you would rather not come up to the microphone, please use the idea form that is on the back table here as well, and the entryway table, and give us your thoughts that way. You can either drop it off with me at the end of the meeting or mail it to me at the address noted.

With that, let's go ahead and turn it over to the public portion of the meeting.

CHAIRMAN WOOD: The first person up was Terrence Nash.

MR. NASH: Can I stand here and talk or do you want me to come up here? Thank you for giving me the opportunity to speak on this issue. I think there has been enough discussion about hedging, level payment plans and increase purchase gas adjustments. The setting of prices of natural gas needs to be taken out of the hands of the speculators and hedge funds.

What I mean is the New York Commodities Exchange Commission. In December, when we had this spike up to \$10, there is only 40,000 contracts for natural gas traded with 5,000 MCF to set the natural gas prices. The amount of people that were setting the natural gas prices could be sitting right here, because the hedge funds and the speculators had an incentive to drive the price up to make more profit.

The public -- the setting of prices that customers of public utilities should pay needs to be set by a public agency that represents their interests. The public agency needs to contract with gas producers for delivery of gas at a fixed cost. No different than what General Motors does when they have a 16-inch gas main coming into their plant. They do not wait around and buy gas in December or January. They set a fixed amount. No different than what MGE could say to the natural gas producers and say, "We would like to have you bid on providing the natural gas to the Kansas City, Missouri, customers that we have." There is no reason why they can't provide, have enough gas, natural gas companies bid on the price.

This would require the bill to the customer show the transportation costs, the local utility distribution cost, and the cost for MCF, being the gas producer. This should result in a price stability and adequate supplies for public utilities. In no way do I believe that MGE has any part of setting natural gas prices. So that's not what I am interested in complaining about. Because on chart one, the first thing we have is natural gas producers, rates not regulated, then we have commodity cost. And the real focus of this

whole thing is, who is setting the commodity cost of the natural gas? And that's what I believe is the problem.

I want to just say one more thing. Is many people might remember the Hunt brothers in the '80s tried to take over the silver market, and they drove the price of silver up to \$50 an ounce. On the commodities exchange, nobody paid \$50 an ounce for a physical bar of one ounce silver. The highest the physical bar of silver ever got was \$20. So there's a whole disconnect from what the physical commodity that somebody was going to use and what the speculators and hedge people and the Hunt brothers were using for speculation purposes. That's what I think the whole focus of this problem should be.

CHAIRMAN WOOD: Thank you, Terrence. And actually there was a -- Mary, there was a house unanimous Resolution 12, I think there was something we recently saw that was in interest of reregulating the wholesale price of natural gas. I think you will find a wide version of opinions as to how people feel about that. But there was something that was sent out recently on that from the Capitol. Are there any comments or questions after Terrence's remarks? Thank you, Terrence. Now we have Joe Hartmeier.

MR. HARTMEIER: I have one comment to make. You gave Carol Jean a very adequate introduction, but you didn't tell us your name or for whom you work.

CHAIRMAN WOOD: Okay. Sorry. Thank you.

I'm Warren Wood, I'm the natural gas department manager of the Missouri Public Service Commission.

MR. HARTMEIER: I see. You want me there or here or what?

CHAIRMAN WOOD: Wherever you prefer to be.

MR. HARTMEIER: All you good people that live in Independence, I'll be this outspoken with you. There is only one hope for you. And that is for the City of Independence to secure the franchise and run our own gas operation. You people here, I'm not condemning your voracity in any manner. Your employers told you to come and conduct this meeting.

To me, this meeting is buying time for MGE. Because spring is here, and then summer, and then fall. And I heard a good one today on the 12:00 o'clock news. Tom Brokaw gets this, he will call it an "In depth." Missouri Gas Energy is going to give us all \$7 back, starting with our bill in May and it runs until October. To me, that's comparable to a tightwad eating dinner every day in the same diner and tipping the waiter a dime, and then, oops, I am going to take care of you, buddy. You are going to get 11 cents from now on for the next five months. That's about what \$7 on the gas bill is.

Another thing, it is my understanding, correct me if I am wrong, Missouri Gas Energy was cautioned by the Missouri Public Service Commission last fall or summer to implement hedging. They didn't do any hedging. They didn't have to. Because any price increase they pass on to the consumer. If you do a little hedging, you buy it when it is cheap and you put it in storage, or you do something with it. You hold it until it is needed. They didn't do that. It costs money to do that. But, my God, look at the biggies that got the bonuses just recently. And look at the widow woman. Her husband died, left her a thousand dollars in a life insurance policy, and she had to spend half of it on one month's gas bill. I don't say that's unconscionable. It is obscene.

And that's about all I have got to say, other than I have worked very, very, very hard on the City Council in City of Independence the last two meetings. Or not the last two, but two meetings. I have implored them to do something about this gas situation, and let us run it. Take it over. And I am hopeful that that will come to pass. It is the only hope for the people in Independence. Thank you very much.

CHAIRMAN WOOD: Are there any comments or questions based on Joe's remarks? I think I heard you say you were in favor of hedging and price insurance?

MR. HARTMEIER: According to the newspaper, they refused to implement a system of hedging, because it costs money to hedge. You know that. You either got to pledge some money that you are going to pay them in the future, or you pay for it when you get it or you go and borrow some money. They won't store it for you for free.

CHAIRMAN WOOD: It is like price insurance. A premium just like your fire insurance.

MR. HARTMEIER: You know, I found out a lot of things by asking questions, too. How long has Missouri Gas Energy been Missouri Gas Energy? Do you know? Not too long.

MR. HACK: February of '94 is when Missouri Gas Energy came into being.

MR. HARTMEIER: Is that when they made the change? I asked the girl one time, on the phone at your local office, I said, "Do you know," I said, "I have a gut feeling that you people adopted that name to leave a sweeter taste in the mouths of Missouri gas purchasers." She said, "Sir, you're absolutely right. That's exactly why we took it." That would make sense. Outfit out of Austin, Texas, calling the shots and collecting the money here.

CHAIRMAN WOOD: Thank you, Joe. Joyce Lucas.

MS. LUCAS: No.

CHAIRMAN WOOD: Then Joyce White.

MS. WHITE: What?

CHAIRMAN WOOD: Would you like to speak?

MS. WHITE: No. I am in agreement with this man that talked about this Austin, Texas. I am thinking about our president is an oil man, and he is from Texas. So that needs to be thought about, too. And all this come up just as he was going in office.

CHAIRMAN WOOD: Now Ruth Bauch. Is that right?

MS. BAUCH: Bauch. It doesn't look like Bauch but that's what it is.

Well, I am not going to cry on your shoulder about how my husband and I suffered, because we're well enough off that we didn't suffer. We went into shock but we didn't suffer. The people that I feel sorry for are not the indigent or the people that just plain live in poverty and don't know anything else. And it is not that I am not sorry for them, but I know that their life was tough this winter.

The people that I feel the sorriest for in this whole mess, was a woman of a little beyond middle age who is single, moved into the house next door to us, which is about a 60-year-old, 65, 70-year-old house, with a coal furnace converted to gas. Gravity heat. So we all know what that costs to heat that little house. It is a one-bedroom house. It is not enormous. This woman works, she makes very good money. But she is her only support.

She came home and she picked up a gas bill that says \$280. She kind of blinked a couple -- this was before it really got awful cold. So she turned her thermostat down to 50. And she wrapped her little dog up and one thing and another, and they survived pretty well until it really turned cold this winter. And then they just suffered. I know they did. Now this is a woman who makes a good living, who pays her bills and pays high rent and pays the same things that we all do. But it was all she could do to survive through the winter without some help from some of her relatives.

Now I know I am just sitting here making noise. We are all sympathetic with people who have a hard time making ends meet. But I really think it would be nice if the State of Missouri would be paternal enough to see that we couldn't just wake up one morning and find -- I think our champion bill

this year was \$290. And we have a very efficient house. I do not know how people lived. I simply don't know how people heated their homes that don't have really efficient houses. And most people don't.

I don't know that I am contributing any new thoughts to this whole thing except I felt like these thoughts of a homeowner ought to be expressed. We are retired. We're on the famous fixed income. The lady next door to me can make more money if she goes out and gets a second job, and doesn't come home at all. She wouldn't have any trouble making ends meet. I just think that there has got to be some answer. I am really not too much for state paternalism. But I think there has got to be some way of leveling out these payments, these gas utility bills of all kinds. We are awfully fortunate to live in Independence. That's all I have to say.

CHAIRMAN WOOD: Thank you very much. Now Bill Brown.

MR. BROWN: First off, I would like to say that I see an answer to one of my questions right at the start on commodity cost. No state or federal regulation since 1989. And I think this has been the problem with the whole thing. I think that we need regulations definitely after this year. And I think that the state should continue to regulate the gas company. If not, what is going to happen then if they do deregulate?

CHAIRMAN WOOD: You would like to see the wholesale price of gas reregulated at the well head?

MR. BROWN: Yes. I think this is the real problem that has come up. Like the gentleman said over here, the dollar and 17 cents a month for the months of -- from May through next November or October, that figures a dollar and 17 cents a month you are going to save on your gas bill. But what about after that? And I don't really blame Missouri Gas Energy, I blame the federal government for all of our problems. Deregulating. I have a newspaper clipping here that shows that Exxon, they made \$3 billion last quarter. Conoco -- that was 44 percent. Conoco did better that they only made \$368 million. They got percent more profit. And this is what has happened to all of us. They are eating us up, and there is nothing that we can do about it. I think

it is time that somebody start getting, taking ahold of things and putting the rules down where the customer is protected somewhat. I want to thank you all for --

CHAIRMAN WOOD: Thank you, Bill. We have Cecil Vaughn. Do we have a Cecil Vaughn here?

MR. VAUGHN: Yes. I don't think I need a microphone.

CHAIRMAN WOOD: You have a good, strong voice.

MR. VAUGHN: Most generally I can speak loud enough, I think most everybody can hear me. I want to thank you for coming to Independence. We appreciate it. I come from a portion of the community where two out of the three households have one or more citizen that is retired, that is on a fixed income. I come from the older part of that community where some of us have larger, older houses and have large fuel bills.

I understand the problem that occurred this winter. I don't like it. I am mad at MGE. But if it was XYZ Company, or ABC Company, since it is my only source for a commodity, I would be mad at that company. But I understand their position. They have to pass through cost. I have some concerns in this process.

I have seen some proposals that run from one extreme to another extreme before the General Assembly this year. And of course I think you have all read them in the newspaper. I went to look down the road, even though I am kind of mad at MGE because my gas bill is too high, but like I say, it would be anybody else that gave me a high bill, I would be mad at them. I want to make sure that they are in business five years from now.

I think everybody in this room, and everybody in the legislative process, or in the regulatory process in Jeff City, wants to keep

one thing in mind. We want to be able to light that gas stove in the morning and know that I am going to have gas there. I don't want ABC or XYZ or MGE or whatever you want to call the company, I don't want it to go bankrupt. If it can't make a profit, it is going to find someplace else to make money at. It won't be in distribution of gas service.

I have a question, and I would hope somebody from the panel would expand a little bit about this PGA rate caps with summer recovery option that is there. Could somebody give me some more information on that?

CHAIRMAN WOOD: Sure, happily. Let me talk a little bit about how that would function. Basically going into a winter, there would be some look at what future prices may go to. Some ideas as to what the reasonable spike would be. Let's say this winter you would have had a rate cap of \$7 PGA, say, was the cap. And that means the highest PGA you would see that winter would be \$7, regardless of where the market went. There would probably have to be some extraordinary emergency provisions for comfort level with the premiums and with getting those price insurance in place, and the higher participation fixed price contracts, you can bring more stability to those rates. You do take some risk when you do that. Because you pay the premiums, and if the market doesn't reach those levels, the premiums are gone. But you are happy every year that your house doesn't burn down, you have paid out fire insurance. It is the same deal.

MR. BROWN: As a senior citizen on a fixed income, I could live with paying a little more, if I knew that it was going to be constant. That I -- my worst nightmare is to open a bill and find out that I am \$300 short for the month, you know. And then I have to break into a C.D. or some other type of funding to pay that. And you will find that most senior citizens want to pay their bills. And we can afford to do it, we just have to make adjustments. And we have to know what that price is going to be.

It would be nice to say I want MGE to lower my damn gas bill. But I know they have to pay a certain amount for it, and they have to make a profit distributing it to me, and I can't hold that against them. And I have to realize there is a greater demand for gas now. Even if we had a mild winter, we would have a greater demand for gas right now and I understand that. Times are changing. I am going to have to pay more for it. But if I know ahead of time what I have to pay, I can be a little more comfortable with the process. Thank you.

CHAIRMAN WOOD: Good. What I hear, and this would be a good time. I'm not hearing a lot of discussion in terms of stabilized rates versus the lowest possible. If you don't mind, a show of hands. Who is more interested in stable rates? Let's just, for instance, say that over the period of a year, on average, over a period of years, you might pay five to ten percent more for your gas but your rates would be much more stabilized, versus paying the lowest possible but having your rate bounce around quite a bit. Just a show of hands. Stable rates versus -- stable rates? Lowest possible? I am hearing stable. Of course I think everybody's would go up if I said stable and absolute lowest. But there are some differences in purchasing strategy to achieve those two goals.

MR. FINNEGAN: Warren, it sounded like he was talking about weatherproofing the bill. Because PGA price gap through the summer recovery is not going to help with this last winter. It is going to help, but it is not going to take everything out of the -- because the cold weather did that.

CHAIRMAN WOOD: Also possibly locking in PGA rates for a year, or more efforts to stabilize rates using financial instruments. And the weatherproof bill is the ultimate stabilizing of rates. That type of a deal. Yes.

MS. BAUCH: I'm sorry. But there was something else that occurred to me, and you can't do anything about this. Along with our gas bills,

for some time before this popped in our faces, was a little thing about would you like to go to the level payment plan, and then a telephone number to call. I spent some portion of five days trying to get somebody to talk to me about this, and I never did get anybody to talk to me about this. Did they not want to talk about it because they knew that this was going to hit or what?

MR. HACK: No. We want to talk to our customers. I know that during the December, January time period when the bills were spiking, our phone center was inundated.

MS. BAUCH: This was before that.

MR. HACK: Was it? Our intent is to talk to our customers. So I would like to talk to you about that. We recommend the level payment plan.

MS. BAUCH: Sure. It makes sense.

MS. MAYES: Before you go any further, I have had a question. That in the interests of -- so everybody understands some of the things that we have been addressing, the ex parte situation. They want to know who the heck you are, if you are not the PSC and you are the staff, and how does all of that play in. Do you work for the PSC, and when you say yes and no, that's going to really get their attention. But it occurred to me there might be a number of people here who would like to have you run through that little bit of information.

CHAIRMAN WOOD: That would be fine. Yes, I work for the Public Service Commission. But I am not a commissioner. I am not appointed by the governor. I am hired as an employee of the Public Service Commission, and I serve on the staff of the Public Service Commission. Which means that -- an attempt to probably give a better one-liner as to what exactly that means in terms of what I work on, basically case filings come in, including this one. We work on staff recommendations, testimony, we develop positions, and we provide those in filings to the commissioners. But I am not able to go upstairs and go sit with one of the commissioners and say, "You know, this case that came in, I think this is what we should do."

19 It is the same thing as a judge. If we had a child custody suit going on, and you and I were fighting over a child, I could not walk into the judge's office without you present and say what all the horrible things you are, all the good things on my position, the child should be mine. The commissioners serve a quasi judicial role, which means they are judges over cases that are litigated. The ex parte issue is an issue of undue influence or -- unfair influence.

So I work for the Public Service Commission on their staff, and my job is to provide the recommendations, opinions, testimony and positions of our department and our staff that work in this particular area for the commissioners' review. And they also receive filings and opinions and recommendations and testimony from the Office of Public Counsel, which I would note that Martha Hogerty is here. She is a member of the task force. If you would like to introduce yourself. MS. HOGERTY: I am Martha Hogerty, and my job is to represent the public before the Public Service Commission. And I have been invited to be on the task force to help with recommendations to the Commission.

CHAIRMAN WOOD: Martha also is able to put in testimony, opinions and recommendations. And she can't walk in and talk to the commissioners directly on a case without other folks available. Missouri Gas Energy and others are able to file testimony before them, and they have to act and make decisions on the record. What is available, information is available. Not on individual discussions that may have taken place. Is that accurate, Tim?

MR. SCHWARZ: I would say that is a fair representation.

CHAIRMAN WOOD: That is an engineer's representation of something that the deputy general counsel would be much better at stating.

MS. MAYES: So when you say that you work for the Public Service Commission, that does not necessarily mean the five commissioners at all times. The Commission encompasses a much larger group of people than just those five commissioners. And therein, I think the public becomes confused quite often.

So if you have other questions about the makeup of the Commission, this would be a good time maybe to ask.

UNIDENTIFIED SPEAKER: Whose interests are you looking out for?

CHAIRMAN WOOD: That is a good question. We represent -- we are just and reasonable, safe and adequate. Just and reasonable rates, safe and adequate service, is our role. And we are trying always to act as a mediator or a middle -- person with a middle opinion between what the utility needs and what the public needs, in trying to stay on the middle of the road.

MR. SCHWARZ: If I might. Ms. Hogerty is the public counsel for the State of Missouri. She specifically represents consumer interests in utility cases in front of the Commission. The utilities of course represent their own interests. Frequently large industrial customers will play an active role in rate cases and other cases before the Commission. All of these parties have distinct interests that they represent. The staff and the Commission isn't charged with representing the interests of industrial customers or residential customers or the utilities. The staff's charge is to provide a balanced view of the issues in front of the Commission.

CHAIRMAN WOOD: I had one more speaker and then we can go to general open discussion. I didn't want to hold up James Baldwin any longer.

MR. BALDWIN: You might call me a political activist. When I retired I got active because I saw what they were doing to us. I tell my retirees that I'm the retired chairman, Local 249 UAW. You are born in politics and you die in politics.

What we are all a victim of here is sheer politics. Last year there was a bill, 1157, which as Trent Lot's own bill. He let this languish for reasons of political expediency, because he didn't want to give the administration any credit in the election year. He let the amendment tree fill up completely. This bill had things in there that would help on the retrieval of gas from old wells, natural gas, and it would also put a minimum price support on domestic produced crude, which would stop OPEC blackmail.

Now this year that bill essentially was modified. I called 48 U.S. senators, both sides of the aisle, and 21 representatives, both sides of the aisle, and told them, for pity sakes, if you don't have the votes on this drilling Anvar, forget it. And let's concentrate on keeping the country from going into a depression.

Now Berkowski did acquiesce. There was a couple of us were active on the phone. And he did split this bill into two parts. The first one is 388, deals with drilling Anvar; and the second 389, A, B, C, D and E deals with electrical generation, plants being built, clean coal, and also a 17-dollar a barrel price support of domestic produced crude and recovery of gas from old wells.

Now, when this president of ours took over, I will have to tell you this. Although he made the promises back there that we had an energy crisis and he went on and on about this thing, he has put it on the back burner all the way through. He has brought up everything but that. Now he said clear back in December, you know, that we had an energy crisis. But, what has he done? There are two bills that have been introduced that are right now tied up in the Senate Finance Committee ever since February. Berkowski's 388 and 389. 389 would answer a lot of the problems we're talking about right here today. And Bingaman, a Democrat from New Mexico, and it falls fairly closely but not as exhaustive as the 389. Now, in the March 30th edition of the Wall Street



Journal, Secretary of Energy, Spencer Abraham, made this statement. "The administration is ours. No incentives for the exploration of energy." Now what does this mean? You have already talked about a shortage of energy. Shortage of gas. He wants no incentives. He doesn't want any tax incentives for the exploration of natural gas or oil. All the time he is telling us he is going to take care of us. Well, so far he has been a dismal failure in that particular deal. So what we need to do, this problem that we're talking about here today is not going to be solved unless something is done on the federal level. These bills have been tied up in Committee all this time, and Trent Lott is not trying to get them out. He is the majority leader in the senate. And until he says bring these bills out, you are going to be at status quo. It is a political situation, friends, and it is going to have to be settled on a political basis. That's all I have.

CHAIRMAN WOOD: Thank you very much. Now let's see. Those were all the signed-up speakers. Is there anybody else that would like to sign up to speak? You can either put it on here, we need to make sure we hear your name for the record here. We are developing a transcript so that we can keep everybody's comments here.

MS. BROWN: I would like to have some discussion, for this group to elaborate on what stabilizing the prices of gas would be. To me, I'm not sure --

CHAIRMAN WOOD: We need your name.

MS. BROWN: Ann Brown. To me, stabilizing what I think is the problem, is that, it is just like any company, you have got to go and seek the best deal without doing the wrong thing. In other words, what I am trying to get at, is if they buy the gas from people that are not trying to make more than they're supposed to make. There's where the problem in America is today. The greediness of big gas people, big oil people, big whatever. Like my husband says, a company can make 64 percent, out of how many billions of dollars was that that they made? \$3 billion. That's what Conoco -- that's what their -- Exxon. And then Conoco made what? 368 million profit in one quarter. Is that right for the American people? Not to me. I am not smart a lot about all this stuff. I am just simple. I think simply. But to me, I think that is wrong. And that's what -- I don't know how it is ever going to be fixed. I am not smart enough to fix that. But surely somebody in this room has got smart enough to try to figure out a way that people that can't pay their gas -- I know a lot of young couples who have families. I don't know how they're going to do it if there isn't something done right. R-i-g-h-t. Not just stabilizing and hoping that the older people can make it and budget their thing. The kids that -- some of these kids can't even budget. They don't have anything to budget. So like I say, I am not the smartest thing in the world, but I think simply. That's how I feel about it.

CHAIRMAN WOOD: Thank you, Ann. Okay.  
Yes.

MS. HAMM: My name is Martha Hamm, and I live here in this area. Most of the information given is -- I agree with. I just feel like that stabilizing the rates would be so helpful. I personally had rates that increased three times what they normally are. It is impossible for me to adjust my budget to correspond with that.

Having a more customer friendly attitude in the company of MGE would be very helpful. When we call in with our problems, we're given just, "Well, that's the rule." And I said, "I don't want to talk to you anymore. I want to talk to someone that is making the rules." "Well, I'm sorry, you know, that's the rule and I make the decision and that's the way it is."

"I don't want to talk to you anymore." So anyway, I pursued that further by going to the phone book on my own. Customer relationships that are positive rather than the negative behavior management techniques would go a

long ways to diffuse the anger that is out here. And another point. You know, the last time I looked, the average income level was \$37,000, \$38,000 a year here. Maybe it has gone up. That means 50 percent of us are earning less than that. You are talking about the great profit that this company made. Well, Fortune Magazine was bragging that they made \$219 billion.

Now, ladies and gentlemen, that is beyond my comprehension. I can't even think of how many zeros that that would be, but I do know that's a whole lot more than 38,000 a year. And the profit that they made is after they get paid these enormous salaries. There is something wrong, because the people at the bottom, for 40 or 50 years, have been paying the gas bill and paying for this energy, and now we're just being discarded. It is not right. I think about the lady that I talked with, and she had her heat set at 45 degrees all winter so that she could manage to pay. I think about that man over in Kansas City that no one really -- it is just kind of a passing thing. The man died because he didn't have heat. And he probably was too proud to go to ask for help, because we don't want to ask for help. We have been paying our bills all these years. We don't want to be on charity. But this man was obviously poor, and maybe a minority, and certainly wasn't worth more than just a few lines in the paper.

Now we've got a gap of understanding in our society that needs to be clarified to people. Because if you have ever played with the little blocks that have numbers on them and letters, you know how you can stack them up, and you can leave little windows in there, but you can stack them up so high. And you start taking out the blocks at the bottom, and pretty soon the blocks at the top aren't there anymore either. It is a fallacy to think that they can continue in this manner.

What it boils down to, is deregulation is a failure. We cannot have deregulation on a commodity that is life -- it is a life-giving source.

Now, Wal-Mart was right behind Exxon in what they brought in. I can choose whether I want to go to Wal-Mart or not. But I have to have gas. And don't tell me that having 50 different suppliers of natural gas is going to make things better. It doesn't. What it does is it ruins the good jobs for our union people. They don't have the benefits anymore like they used to. They don't have the job security like they used to. That's what we saw happen with Southwestern Bell. I'm not defending Southwestern Bell, I can choose whether I want to have a telephone or not. It is not life-giving. But electricity and gas, at this time, are the sources that we use to stay alive. If someone else comes up with something else, then we will have a choice. But right now we need to be regulating the suppliers of gas to our communities. Thank you.

CHAIRMAN WOOD: Do we have some other questions? Your name again?

MR. BALDWIN: Jim Baldwin. You people from MGE can probably help in this particular thing that is down in the state house right now. I asked Bill Boshay, Representative Bill Boshay, to write a resolution calling on Congress to get off the dime and pass a viable energy policy up there. Now this sailed through the house, if I am not mistaken, without a dissenting vote. But as I understand, we might have a little trouble in the senate, it is republican controlled. I think it is called Resolution 48 in the senate. We will all be better off if we can force Congress and the president to come up with a viable energy policy that is good for all the people, and the companies as well.

So if you will, I wish you would try to lobby a little bit among the senators down there, the Missouri senators, and say look, let's get this resolution through real quick. Because Missouri is a swing state, we have named the president for years. When this resolution hits up there, it will turn some heads and generate some concern.

Kansas has already done it, although it doesn't even measure up to the resolution that Bill Boshay wrote. I wish you would take a look at that Resolution 24 and its counterpart in the senate, and let's put a little pressure on there and do a little lobbying to get this done. This is just demanding Congress to do their job and come up with a viable energy policy for the nation. Thanks.

CHAIRMAN WOOD: Actually I think I have seen House Resolution And there is also a unanimous, it was the Stipulation 12 as well that had some things that you are talking about. Terrence?

MR. NASH: Terrence Nash. I would like MGE to tell us who they are buying their gas from, because you are only providing -- you only have the distribution cost. So the problem is that, once again, the people that -- the gas producer or the sellers of the gas aren't sitting at the table tonight, and we're not really discussing distribution cost. We're discussing gas cost. That's who I would like to have up there. So the next time, instead of MGE, bring the people that you are buying the gas from up to us.

MR. HACK: I can tell you what the companies are.

MR. NASH: That's what I mean.

MR. HACK: We buy the bulk of our gas from four companies. Amoco, B.P. Amoco now, Oxy Petroleum, Duke Energy Traders Marketers, and One Oak Marketing. The bulk of the gas that physically comes from Oklahoma, Texas, and Wyoming.

CHAIRMAN WOOD: Do we have any other questions? Your name?

MR. BROWN: While on this subject --

CHAIRMAN WOOD: Your name again?

MR. BROWN: My name is Bill Brown. What about the Hutchinson, Kansas, all the gas that was stored out there that went to waste because of their wanting to hold it and hold it until the prices went up where they could make big bucks out of it? And they ended up eating a lot of it. And probably one of the reasons that we had a shortage.

MR. HACK: I'm not intimately familiar with the situation. I do know that it was a storage facility owned by Kansas Gas Service. The local distribution company similar to Missouri Gas Energy on the Kansas side of the state line here in this area, and elsewhere in Kansas. That is their own company-owned storage facility, and they have used it for years. And frankly, there was a structural, I think it was a geologic failure that resulted in fires and deaths and it was a tragedy.

MR. BROWN: None of your gas comes from that area? The gas fields?

MR. HACK: We are served off the same pipelines as Kansas Gas Service. Our storage, we lease our storage facilities from primarily Williams Pipeline, and it is in the general area. There are a lot of salt caverns in Kansas. But it is not from that facility.

CHAIRMAN WOOD: Do we have any other questions? Okay. Name?

MR. MAHLBERG: Paul Mahlberg. I have a question for MGE. Does your parent company, Southern Union, have any interest in the supplied gas? They don't need gas supplied?

MR. HACK: No.

MR. MAHLBERG: Okay.

CHAIRMAN WOOD: And I had another question over here. And your name?

MR. WEBER: Jim Weber. I just want to know how much gas can you store at any one time?

MR. HACK: We have storage capacity on the pipeline system of roughly 14 or 15 billion cubic feet. And it is on two pipeline systems, Panhandle Eastern System and Williams System. Storage is necessary for system

reliability, so that we can get all the commodity we need during peak periods. During -- I think generally on a normal winter, storage makes up about 25 percent of total system deliveries during the wintertime. Now we're in the storage injection season right now. This is when we buy the gas to put into storage. But there were stories last winter about lack of storage. That was not an MGE issue. In fact, it was not an issue for Missouri companies. But storage levels have an impact on the national price for gas.

MR. WEBER: Is this under pressure? I'm not familiar with how you store it.

MR. HACK: I'll ask the engineer to answer that question.

CHAIRMAN WOOD: There are three primary types of storage facilities. One is a salt cavern that is actually a manufactured underground reserve. I won't go through all the details unless you are interested after the meeting, talking about how they build it. But that is one way to store it. Another way is depleted oil or gas fields that are geologically tight that you can come back and inject gas into and then take gas out of later. Yes, it is under significant pressure.

And the last is an aquifer, which is an anticline in the rock, and you have water pressure. You can put gas in the top, push the water level down, then the water pressure will push it back out when you want to take the gas later. Actually we do have an aquifer within one of our natural gas companies, and there are quite a few aquifers in areas northeast of here.

MR. WEBER: How far below the ground level are they?

CHAIRMAN WOOD: They vary in their depth below ground. The deeper they go generally -- the deeper they go and the tighter the formation, the higher the pressure you can store it under.

MR. WEBER: I was just wondering. Something I had never heard much of a discussion on before.

CHAIRMAN WOOD: In the newspapers you will see talk about natural gas storage tanks weren't filled up and stuff. You are not going to see some big circular tanks on the side of the road with natural gas in them. Unless it is a liquified natural gas facility, and there are very few of those around here.

MR. WEBER: I know years ago the gas was stored at one place along Indiana Avenue in Kansas City. It had a big round tank and a floating top on it.

CHAIRMAN WOOD: Those only store -- those are like daily in/out tanks, and they are for pressure control. Because usage over the day varies pretty dramatically. And you want to maintain some pressure in the lines, so you will go out at points in the system and put relatively low pressure tanks with a rising ceiling in them, and that helps you take the daily swing in supplies or in demand. Those -- when you see the volume in that tank, that is quite often only a portion of the whole city uses in a day. Any other questions?

MS. BROWN: Do they still have that type?

MR. SCHWARZ: In St. Louis.

CHAIRMAN WOOD: In St. Louis, yes. I don't think they have any.

MR. HACK: We don't, no.

CHAIRMAN WOOD: You can also accomplish using line pack, which is where you put more pressure into some of your larger mains, and then you can take the difference in demand in those lines.

MR. BROWN: Through a pumping system, rather? Through pumping systems?

CHAIRMAN WOOD: You do line pack or differences in pressure over the day, within a band of acceptability. Other questions?

MR. BROWN: I have one more question.

CHAIRMAN WOOD: Your name?

MR. BROWN: My name is Bill Brown. What I would like to know, is the information that is being gathered here being taken back to the regulatory Commission with recommendations; is that correct? CHAIRMAN WOOD: You are referring to the comments here within the group? They are being collected by a court reporter here, and they will appear in a transcript that will then be available to all of the task force members. And a summary of much of the finding and discussion from these will go into the final task force report, and obviously the transcripts will be available to anybody who is interested to have that report.

MR. BROWN: When this information is given, will they then decide whether to regulate or deregulate or what?

CHAIRMAN WOOD: Our impact is at the state level. We can include the people's comments regarding reregulation of the -- at the federal level, and some of the stuff that has been mentioned here. But I certainly can't immediately go do something to reregulate the federal levels. We are more interested immediately in methods to stabilize rates if people are more -- that's one of the big points that we want to come out of here. Generally I have heard that the majority of these people are interested in some stability of rates, not necessarily always the lowest possible price. And that's something of value to this group. But beyond that, we're not going to be able to do much at the federal level at this point. But there are things that we can do in terms of planning for gas purchase in the future at the state level that would make some differences. But we would still be sensitive to a wholesale market that is not controlled. But it is controlled by supply and demand and competitive forces. Okay. Yes.

MS. BAUCH: My name is Ruth Bauch. The thought just crossed my mind that as long as George Bush is president, somehow or another it seems unlikely to me that regulation by the federal government will happen again. Right?

CHAIRMAN WOOD: I am not charged with.

MS. BAUCH: I don't have anything personal against old George.

MS. MAYES: Before you break up. I wanted to know who you were for heaven's sakes, and who the task force was. But I think maybe it would be nice if you would share with them the other places we are going to go before our work is completed, so they know that we're not a one-night stand.

CHAIRMAN WOOD: Our other meetings are going to take place May 4th in St. Louis, at the Ensell Campus. Then we will be meeting May 10th in Jefferson City at the Jefferson City Armory. These are the public meetings I am referring to. And then on May 24th in Kirksville, June 7th in Sikeston, and then June 12th in Joplin. Then we will then have three task force meetings to discuss the options that have come out of the public meetings, then, that we have come up with in the task force members. And after those three task force meetings, there will be a final report issued to the Public Service Commission regarding the options that have been reviewed, the different pros and cons associated with those, and hopefully there will be some directions and recommendations from that group. I expect that there will be some of the options that are most attractive to the task force. Okay? And that report is expected in August. Your name?

MR. BROWN: Ann Brown. I would like to ask the MGE man here. I don't know his name.

CHAIRMAN WOOD: Rob Hack.

MR. BROWN: I have forgotten your name. But anyway, if and when they do, if they decide to stabilize, how will they go about it? How do you choose a price? How do you go about it?

MR. HACK: Basically we will have a mix of tools. And when -  
- I am assuming that the price setting process will be basically the same as it is today. So in November, we would look at what our current market price is. We would look at what our fixed contract prices are for the winter, and we would make our best estimate as to what the average overall price is for the winter. Taking into account projections in terms of where the market was going, and realizing where our insurance would kick in, and then see what happens. Just like we do today. If there are over-recoveries, if we guess too high, those things would, under the current scenario, be flowed back to customers. If we guess too low -- I use the word guess. It is an educated estimating process -- we would collect those underages from customers as we do today.

The critical distinction between stable and riding with the market, is using fixed commodity price contracts. So you would know what the unit price will be on certain volumes, and also having this price insurance that caps what you will pay on certain volumes.

That's a long-winded way, and I probably have not answered your question to your satisfaction. But the design would be that if, for example, the market price goes to ten dollars next January, that a significant portion of the volumes we buy will be protected from those spikes. Either through a fixed price contract or price insurance.

MR. BROWN: You say you have, what, four or five different companies you buy your gas from? Okay. Doesn't that give you some leverage on -- doesn't that give you some leverage on what you are going to do? I think that's good, because you have some competition there. And competition is very good for any business. So that's what I am saying, if you have people, all different gas companies to buy your gas from, you are going to buy from the lowest one. I think.

MR. HACK: That's exactly what we try to do.

MR. BROWN: That's what I am trying to find out. I'm trying to figure out in my mind, if it is better for your company to buy from the lowest bidder, whatever it is, and then pass that on to the consumer, or to stabilize it, and then we're to pay, you know, a price that sometimes is really not necessary. That's what I am trying to get at. That's what I am trying to figure out in my mind.

25 MR. HACK: There is a real choice between riding with the market, where you will pay exactly what the market price is, and the market moves significantly, versus levelizing that price out, having some price insurance, having a little more certainty as to what you are going to pay. And on average, you will have to pay a premium of some degree to have that price stability. On average. Depending upon what the market does, you can be better or worse off, in any given year, doing any number of things. I think the conventional wisdom is that stabilizing prices is probably the -- and I haven't done any market research on this -- the desire of the majority of the residential consumer on the gas side.

MR. BROWN: Well, time will tell. That's all I can say. Whether that's good or bad, I really don't know for sure. Just looking at it from a business side, it looks like to me you would buy from the cheapest people and pass it on to the consumer. That's the way I look at it.

CHAIRMAN WOOD: Okay, thank you. Do we have any other questions regarding ideas for the future, problems with the current process, and any thoughts on some of the options that we have presented tonight? Okay. Since we have no more speakers, I will close this meeting.

Thank you all for attending, and thank you task force members for coming in. I know some of you traveled quite a ways to be here tonight. And I hope you found this to be informative. Your thoughts tonight have been taken down, and will be considered by the task force groups further that develop these options. Have a safe ride home and thank you again for coming.

## C E R T I F I C A T E

I, JAMES A. LEACOCK, Registered Merit Reporter,  
do hereby certify that I appeared at the time and  
place hereinbefore set forth; I took down in  
shorthand the entire proceedings had at said time  
and place, and the foregoing forty-five pages  
constitute a true, correct and complete transcript  
of my said shorthand notes.

Certified to this 7th day of May, 2001.

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Registered Merit Reporter